Entrepreneur's Wealth vs. Firm's Welfare: Exploring an "evergreen" governance for firm succession

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Abstract : *In successful privately held companies, where main shareholders and managers are strongly linked, the exit of a founder creates a dilemma between maximizing their wealth through external investment and perpetuating the organizational model by limiting external shareholders. Papers generally show that the entrepreneurs' personal motivations are stronger factors, thus explaining the frequent transition of startups to public corporation models. But is there leeway to design different governance models, for example aiming to facilitate the firm's transmission? Based on a case study of a french management consulting firm, we reveal a variety of parameters that can be at play when designing the ownership and management structure of such a company, and thus of the possible governance systems to be considered. Although the validity area of the case we exhibit is presumably limited, we contend that it opens a category of models that research could explore, strengthen and potentially contribute to diffuse.*

Keywords : Corporate governance, Firm succession, Partnerships, Professional Service Firms, Privately held companies

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Introduction

Succession and exit planning are major concerns for entrepreneurs and especially for founders of new entrepreneurial ventures (Ip and Jacobs 2006). As numerous papers point out, an understanding of the entrepreneurial process is definitely not complete if this last phase is not well described (DeTienne 2010). In particular, research has shown the importance of planning founders' exit ahead because of their strong implication in both the management and ownership of their company, causing the exit to have strong impacts on the entrepreneur themselves and on the future of the firm (Wasserman 2003).

In successful and growing privately held companies however, where management and shareholding is strongly linked, the exit of the founder – or a major shareholder – creates a strong tension between the urge, for the entrepreneur, to benefit from the steady appreciation of the shares value, and the perpetuation and continuity of the organizational model. Indeed, financing the equity share of the departing founder generally requires calling on external investors, be it through buyout, merger, third party sale or public offering. As a result, fast growing privately held companies seem to be doomed to endure a deep organizational change towards the public corporation model.

The question of this transition matters because it delineates the governance alternatives for companies when they grow from their startup phase to medium-sized and large firms and consequently shapes part of their future organizational model and functioning. Yet, most of the research conducted on this topic to date has only studied the question from the point of view and rationality of the founder themselves. Authors have shown that the main factors influencing the type of exit or succession chosen by the entrepreneur are firms' size and growth rate (Boeker and Karichalil 2002), entrepreneurs' personal motivations (Graebner and Eisenhardt 2004), and previous entrepreneurial experience (Wennberg, Wiklund et al. 2010, DeTienne and Cardon 2012). In this regard, the success of the exit strategy is generally measured by the impact on the wealth and satisfaction of the entrepreneur themselves (Hawkey 2002, Stam, Thurik et al. 2010). The research question we propose to tackle is thus the following: what is the remaining leeway in terms of governance for the exit phase, and can we explore potentially different models to curb the tension between wealth maximization and business continuity?

This paper is based on the case study (Yin 2009) of a french management consulting firm, which has developed an uncommon governance model to address this question, and appears as an anomaly (Siggelkow 2007) compared with features that are generally observed for Professional Service Firms (PSFs). PSFs – firms that "trade[…] on the knowledge of [their] human capital (comprising owners and employers) to develop and deliver solutions to client problems" (Morris and Anand 2005) – and in particular Professional Partnerships (Greenwood, Hinings et al. 1990) are interesting particular cases for our subject because their organizational identity is strongly linked to their governance model. Contrary to most corporations where shareholders, managers and "operational employees" are distinct groups of people, the "partners" of professional partnerships are simultaneously the only shareholders (or at least the large majority thereof), managers and "key production workers". In such a model, the ownership structure suits the managerial and professional model, which relies on the strong "emphasis on collegiality, peer evaluation and autonomy" (Greenwood, Hinings et al. 1990) of the employees. In this setting, the financing of founders' exit through external investment would thus jeopardize the very model of the partnership itself, endangering either the former independence of managers, or the rewarding system that required to limit the dilution of partners' equity shares. The founders of the firm we study has therefore sought to design a specific model aiming at ensuring the transmission of the company to management successors, without giving up on capital gain.

Contrary to the dominant models, this case reveals the variety of parameters that can be at play when designing the ownership and management structure of such a company, and thus of the possible governance systems to be considered. But it also demonstrates a certain level of sophistication and complexity, whose area of validity is presumably limited. We contend that this case rightfully opens a category of models that management research could explore, strengthen and potentially contribute to diffuse.

The dilemma of successful firms' succession: value appreciation *vs.* organizational continuity

Firm succession is a recurring topic in management research. Extensive research has shown the impacts of a change in top executives of firms and the importance of planning the transition ahead. Work on succession however covers a wide range of situations in which stakes, expected impacts and relevant descriptors are very different. The most studied governance structures, essentially the ones of public corporations, suppose a "separation of ownership and control" (Fama and Jensen 1983), accentuated by the generalization of "dispersed ownership" already theorized by Berle and Means (1932). In this setting, what is looked upon when dealing with succession is either the transition between directors or top executives (and in particular CEOs), or the processes of change of control (mergers and acquisitions). In both cases, the most recurring line of enquiry is the impact of such changes on the shareholders' wealth, and the best strategies to ensure successful planning, ahead of the transition (Friedman and Singh 1989, Davidson, Worrell et al. 1990, Shen and Cannella 2003, Huson, Malatesta et al. 2004).

Many firms though do not satisfy to the separation of ownership and control principle. Among them, new entrepreneurial ventures (startups), small businesses or family-owned businesses are increasingly studied for the specificity of their governance systems and of their challenges. In those firms, firm succession most often equates with what has been called "entrepreneurial exit", designating "the process by which the founders of privately held firms leave the firm they helped to create; thereby removing themselves, in varying degree, from the primary ownership and decision-making structure of the firm" (DeTienne 2010 p.203). In these cases, the transition implies simultaneously a change in the ownership and in the managerial structures, as founders are often both among the main shareholders and the top executives.

Entrepreneurial exit is therefore a "critical component of the entrepreneurial process" (DeTienne 2010), which has strong impacts on the entrepreneurs themselves, the firms enduring such successions, and the economy on a larger scale (ibid.). It is thus no wonder that numerous papers aim at investigating the main factors determining the choice of exit type, and leading to their successes or failures (e.g. Wasserman 2003, Stam, Thurik et al. 2010, DeTienne and Cardon 2012). However, beyond criteria assessing the success of exit regarding the entrepreneurs' wealth and satisfaction, very few papers study the impacts of such successions on the remaining firm, be it its employees, managers or shareholders.

Drivers and success of entrepreneurial exits

Hawkey (2002), in his book *Exit Strategy Planning*, proposes an extensive list of possible types of entrepreneurial exits, ranging from family succession to liquidation, and including Management Buy-Out (MBO) or Buy-In (MBI) – i.e. the process by which "the firm can be sold to members of the existing management team" or an "external management team" (Scholes, Westhead et al. 2008 p.9-10) –, third party sale or merger, and public listing (IPO).

Along with the variety of exit types, Hawkey suggests criteria to help the entrepreneur choosing their strategy. These criteria are mainly focused on two dimensions: the wealth and personal satisfaction created for the entrepreneur on the one hand, the financial and strategic risks on the other hand. As Graebner and Eisenhardt (2004) have shown, these two dimensions account for the most part of the drivers leading owners to sell their businesses: "strategic hurdles" on the one hand (such as the necessity for top executives renewal or funding round), and "personal motivations" on the other. Among the latter, financial gain and avoidance of dilution are recurrent motivations for selling. This leads both researchers and professionals to publish strategic guides to maximize the financial return of exit (e.g. Dreux IV, Etkind et al. 1999, Nemethy 2011), often regardless of the continuity of the business.

Beyond qualitative research examining personal drivers for the choice of exit type, quantitative research also deals more generally with predictors of founders' departure. Several dependent variables appear to have a significant relation to the probability of this exit: firm size, level of founder ownership and firm growth (Boeker and Karichalil 2002) ;

entrepreneurs' experience, age and education level (Wennberg, Wiklund et al. 2010, DeTienne and Cardon 2012) ; achievement of milestones in the strategic development of the firm, such as maturity of the product or need for funding round (Wasserman 2003).

Overall, research on the drivers of entrepreneurial exit thus demonstrates that the future of the on-going firm after the exit is on average a minor concern for strategic exit planning. Few papers (such as Salvato, Chirico et al. 2010) study the question of business "continuity", especially in a family-business setting. And yet, reviewing the main drivers for firm succession suggests that such an exit generally creates a strong impact on the firm, both a the ownership and at the management level, sometimes strong enough to deeply alter the organization identity (ibid.).

A risk of transforming organizational models

One of the main features of small entrepreneurial ventures or family-owned businesses that are organized as privately-held companies is the strong relationship between shareholding and management. Ascertaining the advantages and drawbacks of such a governance model is not in the scope of this paper. It is however a core element of the identity of these organizations: having top executives as majority shareholders enables for instance a strong independence of management from external financial interests and a direct adequacy between governance structure and managerial model. As a result, structure of ownership, level of profit sharing, and governance rules can be direct management decisions.

Even in privately-held companies, however, the firm's growth causes the "market value" of the shares to increase. This is for example visible through the value that is negotiated when other businesses in the same sector are merged or acquired. If motivated by the drivers mentioned above, such as the financial wealth, planning the exit will include financing the equity share of the owner who is leaving. This market value is then a key indicator of the funding that will be necessary to find to finance this exit. But in this setting, some of the exit types described above would definitely alter the organizational model, thus having a strong impact on the on-going firm after exit :

- *Financing the exit by external shareholding:* The larger the equity share and the stronger the firm's growth, the more difficult it is to find buyers within the management of the firm, and thus to preserve the organizational model. Financing the equity share at the market value might require to call for external investors. Then, the larger the equity share, the more difficult it becomes to preserve the relationship between ownership and control: remaining managers progressively lose their independence vis-à-vis external financial interests, as their shares become in minority.
- *Going IPO:* A particular case of the previous situation would consist in financing the equity share by opening the stock to public listing. In this case, the change of model is even deeper as it involves a change in the legal structure of the firm itself, changing from privately-held company to public corporation. These first two strategies would also enable organizing a new funding round, which would further dilute the shares owned by managers.
- *Merging or selling the business:* Another way of financing the exit would be to organize a merger or acquisition with another firm, thus directly impacting both the ownership structure (dilution of remaining shares in the larger capital of the acquiring company) and the management structure (fusion between the two hierarchies).

- *Leveraged Buy-Out:* Finally, even if the owner wishes to pass their firm on their family or top executives successors (for instance through a Management Buy-Out), the most common way to achieve the level of financing required to attain the market value of the equity share is to get the firm itself into debt, what is called an LBO (Leveraged Buy-Out). Although this might at first preserve the organizational model, the higher the firm's growth and the equity share, the higher the strain such a solution would exert on the economic soundness of the company.

As Wasserman (2003) and DeTienne (2010) highlight, these impacts are even accentuated if the succession is that of the founder, due for example to the "higher level of attachment between Founder-CEOs and the firms they create [and] the much larger equity holdings of Founder-CEOs" (Wasserman 2003 p.149).

As a consequence, it is predictable that the organizational model and identity of such privately-held companies is directly put at risk when the firm is successfully developing. Both firm's growth and successful succession planning – from the founder's point of view – raise the probability of a radical organizational change at the time of the first succession. Contrary to this "generational" model, is it possible to lay some tracks to a more "evergreen" model, which would allow for a better continuity of the organizational identity through the firm succession ?

Methodology : an anomaly in the exacerbated situation of professional partnerships

Data collection and analysis

To tackle this question, we chose to conduct a first exploratory qualitative research, which aim was to ascertain the potential of certain governance rules to ensure both the continuity of the organizational model and the success of entrepreneurial exits. We conducted a qualitative case study (Eisenhardt 1989, Yin 2009) on a french management consulting firm, which is about 15 years old, and openly advertises a special care in the transmission of its organizational model, and specific *ad hoc* governance rules.

We collected data through 4 interviews (roughly two hours each) with one of the co-founders, today senior vice-president, and a senior partner, today secretary general of the firm, both having taken an active part in the building and evolution of the governance and ownership structure over the years. These interviews aimed at understanding the rules and functioning of the model, including how it was designed, how it has evolved over time, and what was its performance over time. This data was triangulated (Flick 2004) thanks to archive material, more precisely internal confidential archives of presentations of the model to the firms' consultants and partners since 2010. Following Siggelkow (2007), we chose a case that offers new insights and contradictions with standard theoretical models, thus "poking holes in existing theories". According to Siggelkow, a single case, when carefully chosen and analyzed with precision, can provide a solid basis for the establishment of a "free-standing model", that is, a model that seems theoretically plausible, and for which the case enables to identify the main relevant parameters.

Choice of the case

The choice of a management consulting SME is particularly relevant to our study. As Greenwood et al. (1990) have shown, most Professional Service Firms (PSFs) indeed are organized following a specific governance model, which they have called the "P^2-form", for "Professional Partnership". This is a particular case of firms where the separation of ownership and control is deliberately avoided. In this model, the "partners" are simultaneously the only shareholders (or at least the large majority thereof), the managers and the "key production workers". Legally, two distinct models can be observed (Greenwood and Empson 2003) : the first one is a true partnership form, in which partners are engaged by name in the collective contract and bear unlimited and joint liability regarding the debts of the partnership ; the second one is a privately-held company of close corporation, in which shares are not opened for external transfer, but the shareholders benefit from limited liability. The firm we study conforms to the second type, although recent research (Greenwood, Deephouse et al. 2007) has shown little difference in the performance between the two forms.

Extensive research has focused on the specificities of this model and the reasons why it is widespread among PSFs while rarely used elsewhere. In short, it allows to conform the ownership structure with the managerial and professional career model, which relies on the strong "emphasis on collegiality, peer evaluation and autonomy" (Greenwood, Hinings et al. 1990) of the employees. According to Von Nordenflycht (2010), the model is explainable by high levels of knowledge intensity, low capital intensity, and a phenomenon of "cat herding" which mostly related to the request of autonomy of the consultants. For Greenwood and Epson (2003) and Levin and Tadelis (2005), its performance also comes from the high incentives it gives to partners-to-be, both financially and in terms of governance control, and the drastic selection system it ensures. For instance, the "up-or-out" scheme demands that professional career milestones correspond to thresholds in ownership of equity shares, although access to capital is controlled by cooptation mechanisms, thus ensuring that acquiring shares always should be both a motivation and a reward for consultants (Levin and Tadelis 2005). Overall, the organizational model is thus part of the very identity of the firm, and is also an asset to recruit high potential consultants, who are sensitive to the role they will be brought to play in the governance of the company.

Consequently, a change in the organizational model proves to have strong impact on the firm at all levels (remaining shareholders, managers and workers). Research on PSF merging has already shown the specific difficulties that such a change in the model could cause (Greenwood, Hinings et al. 1994, Empson 2000). And yet, because the size of equity ownership is part of the professional advancement system, the model necessarily involves a pyramidal structure of ownership in which the founders possess the largest share of the capital. Moreover, if the PSF has been successfully growing over the years, the steady increase in the value of goodwill causes the market value of the shares to be substantially higher at the time of exit than at the firm's creation. Besides, the constant flux of mergers and acquisitions allows for establishing a good estimate of this market value depending on the firm's earnings.

Professional partnerships' exits are thus textbook cases of the tension between growth and organizational continuity. Due to the limited buying capacity of partners within the partnership, defining a "successful exit" as the maximization of wealth of the entrepreneurs would urge the founders to sell their shares to external shareholders, who are higher bidders. Such a solution would jeopardize the very model of the partnership itself, endangering either the former independence of managers, or the rewarding system that required to limit the dilution of partners' equity shares.

Case study : the uncommon governance model of a french management consulting firm

History and legal structure of the firm

Before designing its model, the founders of the firm we study had endured such organizational change when they were partners in another consulting firm, whose founder and majority shareholder decided to sell to an international company to secure its exit. Aware of the risk it would create to replicate the same model into a new firm, they decided to design a specific governance system focused on the ability to handover the firm to successive generations of partners.

The firm was created by 5 co-founders with about 50 partners during the first year. Although management consulting is a low capital intensity sector, some initial investment was necessary to launch the activity, which could not be covered by debt without having demonstrated the solvency of the company. This investment was thus provided by the initial capital, which was formed thanks to a contribution by all consultants. Yet, it was decided to provide a solution for accepting temporary external investment, should the revenue become insufficient to cover working capital requirement before the banks could accept the first loans. To do so, the firm was separated in two legal entities: the consulting activity would take place in a *Société Anonyme* (SA, roughly equivalent to a public corporation) and would be the employer ; and the entirety of its capital would be owned by a *Société par Actions Simplifiées* (SAS) taking the form of a privately-held company, and called the *partnership* because its capital was directly provided by the partners. With this structure, it would be possible to temporarily create shares at the first level (SA) to welcome external shareholders, without jeopardizing the independence of the partnership, which would always keep the majority of the SA ownership.

To create the incentives pertaining to the "up-or-out" scheme, and preserve the governance power of the co-founders, two categories of partners were statutorily created. A threshold in the quantity of shares hold by a partner was defined to separate partners from "senior partners". The latter were to hold at all times at least 60% of the voting power within the partnership, the remaining being held by the rest of the partners. As a result, senior partners have an important role in the governance bodies of the firm, be it the partnership council (elected by all partners), the committee of the senior partners, or the committee for remuneration and promotion, which is responsible for co-opting consultants to partners and senior partners classes through the distribution of shares. When a consultant or partner is elected to be offered new shares, these shares are created through a capital increase, and sold to the partner or partner-to-be.

So far, the organizational model is quite common among consulting firms. If the criteria for successful exits were used in this case, that is, maximization of the founders wealth and minimization of risks, one would expect a quite simple functioning thereafter. The financial structure of such a firm is well-known. The activity and its sources of profits and losses are quite predictable, therefore a single indicator is generally used to measure the level of profitability: the level of fees paid per consultant. As a consequence, the market value of the firm is itself quite predictable, and mostly depends on the average revenue, which is in turn directly linked to this single indicator. In order to maximize personal wealth, a partner can thus play on two variables: decrease the shares dilution, i.e. strongly restrict the number of consultants who can buy shares, and increase the number of non-partner consultants, i.e. the level of revenues. In other words, enlarge the size of the cake and lower the number of slices.

Yet, the founders' wish was to prevent the scenario of the previous consulting firm from happening again. They had defined a kind of specification sheet for a model that we call "evergreen" because of its emphasis on continuity, which is summarized in Table 1.

Business continuity	Ease the handover of the firm to future generations of managers
Management training	Progressively associate partners as future managers
Risk mitigation	Curb the financial and legal risks created by the model
Attractiveness to partners	Growth of the shares' value and system of incentives

Table 1 - Main targeted objectives of the model to be designed by the co-founders

A governance and ownership model dedicated to transmission

To ensure the transmission of the business, the founders decided to implement different governance rules so as to avoid this scenario, which have been written in the articles of the partnership.

a. Planned and regulated exit

First, it was deemed very important that capital ownership be linked to the professional activity within the firm, and to the level of potential an employee could still provide to the collective. As such, it was required that no partner could continue to hold shares while having retired – more specifically while approaching the end of the career – thus preventing partners to keep on concentrating capital. To provide an equal rule for all shareholders, it was decided that all partners reaching the age of 57 would be force to sell their shares to the partnership, so that they would be redistributed amongst younger partners and consultants.

b. Dual valuation of the shares

Second, in order to ensure transmission, one has to ensure that younger consultants keep an easy access to the capital. In most cases, the increase of the stock market value progressively postpones the moment when a consultant is able to buy a share, buy rising the entry cost. In our case, the founders chose to deliberately lower the internal price of new shares, so that newcomers could get very early into the capital, at one of the lowest level of seniority compared with competitors.

However, valuing the shares at such a low level for exiting partners would obviously deprive the seniors from part of the financial value they have contributed to create, especially when they are forced to leave at a given time. To prevent this from happening, it was proposed that the entry and exit prices of the shares would be different. In other words, each share has two simultaneous values, calculated by formulas that are regularly collectively voted by the partners: a low entry price guaranteeing that newcomers have access to the capital, and a high exit price, taking into account the growth of the firm since its creation. This way, when a partner leaves by selling X shares to the partnership at a high price, the partnership is able to redistribute these X shares to existing or new partners at an affordable price.

c. Financial risk management through the constitution of reserves and profit steering

Obviously, the partnership has to bear the cost caused by the difference in both valuations. Two financial provisions have been taken to curb the risks of such design. First, the highest price, only available to partners who leave the partnership at 57 – or for medical reasons – is not equivalent to the market value that could be expected if the partnership was to be sold, but approximately two times lower. Second, since this cost is almost entirely predictable, because it is directly linked to the age pyramid of the partnership, it is possible to constitute accounting reserves in advance, by deducting some of the profit to ensure that cash flow will be sufficient to reclaim the shares.

Two more measures complete the model to protect it over time and provide some adjustment variables. On the one hand, as the time of exit is imposed to the partners, it is not possible for them to adjust their exit to a potential variability of the value of the shares. To prevent a volatility of the price that would put some partners at a disadvantage, the price is smoothed over several years by the computation formula. On the other hand, a long enough or strong enough period of decline (such as the decrease in activity due to the global crisis) would jeopardize the model because it would become impossible to fund the entry of younger partners. Hence, it was decided from the firm's creation that the fixed component of the consultants' remuneration be rather low (lower than the average on the sector), so that the variable component could play the role of adjustment variable in the case of economic difficulties.

In effect, the model builds therefore a strong solidarity between all classes of consultants, so that younger ones may easily have access to the capital, and that senior ones would keep their trust in the value of their investment in the firm. This model enabled to go through the recent crisis while ensuring a sustainable and steady growth of the value of the business, keeping all employees and not lowering the fees per consultant despite the tightening of the market.

d. Steering of the creation and distribution of equity

Finally, beyond financial provisions to ensure the manageability of the model, the role of the governance committees dedicated to the evolution of the ownership structure is pivotal. It is indeed these committees that adjust in real time the slicing of the cake according to its present and foreseeable future size. These governance bodies have two main roles: ensuring that each share does not lose value over time (otherwise the partners would not want to invest in the partnership anymore) and distributing shares to consultants so that their professional career fits with their commitment in the partnerships' ownership and governance.

To do so, they monitor two main parameters of the ownership structure: the level of fees per share, and the number of consultants in each class (shareholder non-partner, partner, senior partner). Both are indeed major indicators of the partnership's stability. On the one hand, the level of total fees per share is a good approximation for the evolution trend of the value of each share, because it is the main component in the calculation of its market value. The objective is thus to steer the quantity of created shares each year so that this indicator is at the very least stable, and preferably slowly growing. On the other hand, partners have to decide on the distribution of the created shares. Here, the objective of transmission is coupled with the professional career path of each consultant: so as to avoid the concentration of capital, the amount of shares sold to senior partners is carefully monitored, and the shares are thus distributed among the categories of partners in order to promote high potential employees, and to fuel the pipe of future senior partners, thus avoiding a too pyramidal structure of ownership. The thresholds between the different categories may be revised over the years so that senior partners always keep about 60% of the voting power in the partnership.

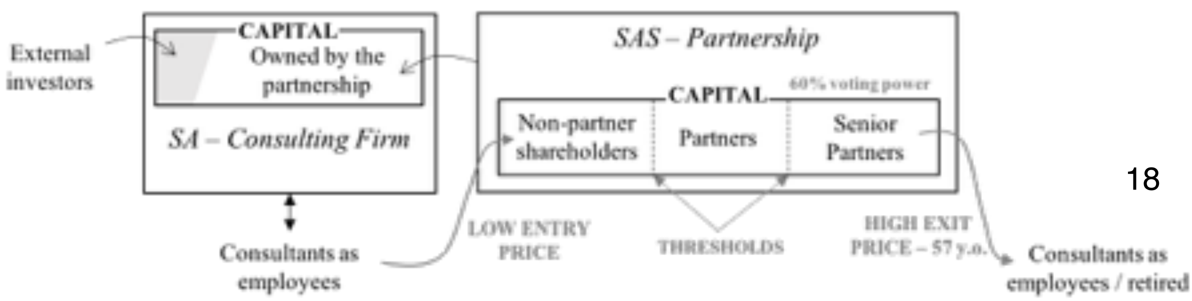

Figure 1 - Schematized representation of the governance and ownership structure of the studied case

Discussion and Conclusion

A new balance between wealth maximization and co-operative objectives

We can already derive two main results from this case study. First, it epitomizes the tension that arises in steadily growing firms between the personal financial interests of the founders – or main shareholders – and the objective of perpetuating the organizational model and pass the firm on to management successors. The model described in our paper reveals numerous compromises designed to simultaneously preserve the trust of partners as financial investors, and the trust of consultants as future seniors.

Second, it shows that even when wealth maximization is not the main purpose of the founder, the adequate governance and ownership structure does not appear to be self-evident. On the contrary, no "off-the-shelf" model seems to fit the specification sheet for a transmission-oriented firm. As a result, the rules defined by the firm's founders prove to be quite complex, depending on more than 20 parameters and 10 equations to fully steer the ownership structure, financial stability, and professional career paths according to the collective purposes ; relying on several legal entities with a multiplicity of governance bodies ; and most importantly demanding the invention of uncommon statutory rules for shareholders, which are not without causing some legal issues.

We propose to interpret this complexity as the result of a design process initially aiming at finding balance between the traditional wealth capitalization model on the one side, and the co-operative, sharing-oriented doctrine on the other side. As literature have shown, the equation between management and ownership is at the core of the professional partnership model: this model ensures a strong autonomy of the partners, both individually and in general as the firm is exempt of the pressure of external investors (Greenwood, Hinings et al. 1990). In fact, the distribution of equity appears as a management device, on which several features of the PSF model are based, such as the incentive to participate in the governance of the firm.

Still, the managerial discretion resulting from this situation is put at risk when few individuals – founders, for instance – concentrate the capital and are able to run the firm for their own interests. One customary way of preventing this concentration from happening, while conserving a close corporation model where external investors are prohibited, is on the contrary to follow the co-operative model, where each worker gets a share in the capital. At first sight, this model seems particularly suited to PSFs because they benefit from a relative homogeneity of the workforce (Von Nordenflycht 2010). Moreover, this model seems to fit the purpose of transmission, since no worker or manager is privileged in the distribution of shares. Several features of the functioning of PSFs however conflict with this solution:

- Partners do not benefit from the growth of the partnership whereas capital investment in rival firms appears as a good long term investment ;
- The incentives systems such as "up-or-out" are discredited by the flat ownership structure ;

- The distribution of equity is cannot be a management device anymore.

	Founder wealth maximization model	**Transmission oriented model**	**Co-operative-like model**
Capital increase	Restricted shares creation (low dilution)	Shares creation steered by economic results	One worker = one share
Shares buying price	Market value	Entry price steered to ease access to capital	Face value
Shares exit price	Market value	Collectively calculated exit price	Face value (no capital gain)
Exit planning	Autonomous	Regulated to prevent capital concentration	Linked to employment

Table 2 - Comparison between three gouvernance and ownership models in accordance with their objectives

Table 2 shows how the firm we have described thus proposes a new model to manage the tension between the two previous types of "drift" about the capacity to manage capital within the firm, and therefore to support the ability to pass the firm on to future generations.

Employee ownership as a management variable to preserve organizational identity

The literature on entrepreneurial exit we have developed above reveals a variety of drivers for organizational change of new entrepreneurial venture and small, or family-owned businesses. Especially, the search for external funding, and for the wealth maximization of exiting founders, are strong drivers that explain the transformation from privately-held companies to public corporations, or at least to external ownership. This transformation generally involves a deep change in the relationship between management and ownership, and goes with the loss of some management variables, or independence *vis-à-vis* financial interests.

Still, numerous papers show that the last decades have known an inversion of the trend in this transformation: firms are increasingly "going private", meaning that they quit a public corporation model for a privately-held model (Block 2004, Mehran and Peristiani 2010). Literature about leveraged and management buyouts has boomed over the last two decades. Although a convincing explanation of the "going private" movement is the US is the enforcement of the Sarbanes-Oxley Act (Engel, Hayes et al. 2007), some papers have shown that the managerial model (and in particular the managerial autonomy) is an important variable to explain the phenomenon (Weir, Laing et al. 2005, Boot, Gopalan et al. 2008). In these cases, firms often go back on their decisions to go IPO because the lower cost of the capital is not compensating the negative impacts of the change in organizational model (ibid.). Yet, buyouts have been shown to have strong impacts on the organizations (Palepu 1990), especially towards the increase of shareholder value (Easterwood, Seth et al. 1989) at the expense of employees' wages (Amess and Wright 2007). This research might open a new way to smooth the organizational changes due to life cycles in the transfer of ownership.

Our case study shows that employee ownership can be open new management variables to control the evolution and transmission of the firm, and solve usual contradictions between the stakeholders' interests. Indeed, the creation and distribution of shares to employees and the use of differentiated share prices between entry and exit can be used as a way to stabilize both the ownership and the management structure, opening the path to a kind of "evergreen" model of the private corporation where equity transfer enables also the continuity of organizational identity.

This result could promote a specific understanding of employee ownership models such as those promoted by the "shared capitalism" proposal (Kruse, Freeman et al. 2010, Carberry, Labor et al. 2011), in which a variety of situations ranging from the mere profit sharing (variable bonuses, no participation in the governance) to co-operatives are considered. For the moment, our research focuses on a single case, further research is therefore needed to ascertain the general validity of such models, in particular in other sectors than Professional Service Firms.

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